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1. SUMMARY. FOLLOWING TRANSMITS SOME STATISTICAL ESTIMATES OF SAVINGS ON LABOR COSTS TO INDUSTRY OF PROPOSALS BEING DISCUSSED BETWEEN BUSINESS AND LABOR TO: (1) ELIMINATE EFFECT OF WAGE INDEXATION ON SEVERANCE PAY AND SENIORITY STEP INCREASES, (2) "FISCALIZE" SOME "IMPROPER" SOCIAL COSTS NOW BORNE BY BUSINESS, AND (3) REDUCE FREQUENCY OF WAGE INDEXATION (SCALA MOBILE) ADJUSTMENTS FROM QUARTERLY TO SEMIANNUAL BASIS. END SUMMARY.

2. PACKAGE OF CONFINDUSTRIA LABOR REDUCTION PROPOSALS.
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EMBASSY HAS OBTAINED FROM CONFINDUSTRIA SOURCE SOME STATISTICS ON ESTIMATED SAVINGS ON LABOR COSTS OF PACKAGE OF CONFINDUSTRIA PROPOSALS TO THREE LABOR CONFEDERATIONS CONCERNING ABOVE THREE PROPOSALS. TABLE 1 BELOW SHOWS PERCENTAGE OF LABOR COSTS WHICH EACH OF THESE ITEMS REPRESENTS OF TATOAL LABOR COSTS IN INDUSTRIAL SECTOR. EMBASSY HAS THEN MADE ROUGH CALCULATION OF

CORRESPONDING SAVINGS IN LABOR COSTS CALCULATED ON BASIS OF 35,000 BILLION LIRE COST OF DEPENDENT LABOR IN 1976 IN INDUSTRIAL SECTOR. (THIS IS FIGURE WHICH CONFINDUSTRIA HAS GENERALLY BEEN USING FOR SUCH CALCULATIONS, ALTHOUGH IT MIGHT BE MORE LOGICAL TO USE ESTIMATED 1977 COST, WHICH IS EXPECTED TO RISE BY ABOUT 20 PERCENT.)

3. TABLE 1 - CONFINDUSTRIA LABOR COST REDUCTION PROPOSALS.

	PERCENT OF	VALUE
	LABOR COSTS	(BIL. LIRE)
REMOVE EFFECT OF SCALA		
MOBILE FROM:		
SEVERANCE PAY	-1.8	630
SENIORITY STEP INCREASES	-0.3	105
ELIMINATION OF "IMPROPER"	-10.0	3,500
SOCIAL COSTS		
CHANGE SCALA MOBILE FROM		
QUARTERLY TO SEMIANNUAL#)	-2.5	875
TOTAL	-14.6	5,110

#) ASSUMES 25 POINT RISE IN SCALA MOBILE.

4. SEVERANCE PAY AND SENIORITY PAY. "SAVINGS" FROM ELIMINATION OF EFFECT OF SCALA MOBILE ON SEVERANCE PAY OF 1.8 PERCENT OF LABOR COSTS CONSIST OF TOTAL BENEFIT RECORDED ON BALANCE SHEET OF FIRMS IN INDUSTRIAL SECTOR. UNDER SEVERANCE PAY SCHEME, FIRMS ARE REQUIRED TO SET ASIDE INTO SPECIAL ACCOUNTS FUNDS SUFFICIENT TO FINANCE FUTURE SEVERANCE PAY AT TIME WHEN WORKERS TERMINATE THEIR EMPLOYMENT WITH FIRM. ACCORDING TO CONFINDUSTRIA SOURCE, SOME LARGE BUSINESSES AND ESPECIALLY BANKING SECTOR NOT ONLY MAKE BOOKKEEPING ENTRY FOR THIS PURPOSE LIMITED OFFICIAL USE

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BUT ACTUALLY INVEST EQUIVALENT AMOUNT IN RELATIVELY LIQUID ASSETS. HOWEVER, MANY (PERHAPS MOST) FIRMS ONLY MAKE BOOKKEEPING ENTRY AND FREELY UTILIZE CORRESPONDING CASH FLOW IN WHATEVER WAY THEY WISH. THUS, SAVINGS SHOWN IN TABLE 1 ARE, IN LARGE PART, BOOKKEEPING SAVINGS. ONLY ABOUT 70 BILLION LIRE WOULD BE SAVED IN ACTUAL TERMINATION PAYMENTS MADE IN 1977.

5. FISCALIZATION OF SOCIAL COSTS. ITEM IN TABLE 1 CONCERNING TRANSFER OF "IMPROPER" SOCIAL COSTS FROM BUSINESS TO GOVERNMENT ("FISCALIZATION") CONCERNS SUCH ITEMS AS HEALTH INSURANCE, TUBERCULOSIS INSURANCE, UNEMPLOYMENT INSURANCE, MATERNITY CARE, ETC. (SEE TABLE 10 OF REFAIR). FIGURE OF 3,500 BILLION LIRE OF POTENTIAL SAVINGS IS MUCH LARGER THAN IS LIKELY TO BE AGREED TO. REALISTIC RANGE OF POSSIBLE FISCALIZATION NOW SEEMS TO BE ABOUT 500 TO 1,000 BILLION LIRE, BASED ON VARIOUS STATEMENTS MADE BY GOI, LABOR UNION AND POLITICAL PARTY SPOKESMEN.

6. CHANGE IN SCALA MOBILE ADJUSTMENTS FROM QUARTERLY TO SEMI-

ANNUAL BASIS. TABLE 1 SHOWS A CALCULATION OF SAVINGS TO THE INDUSTRIAL SECTOR OF REDUCING THE FREQUENCY OF SCALA MOBILE ADJUSTMENTS FROM QUARTERLY TO SEMIANNUAL. ACCORDING TO CONFINDUSTRIA SOURCE, THIS CALCULATION ASSUMES AN INCREASE IN THE SCALA MOBILE INDEX OF 25 POINTS IN 1977. AMOUNT SHOWN IN TABLE 2 BELOW, ON THE OTHER HAND, IS CALCULATED ON THE ASSUMPTION OF A 27 POINT INCREASE. (THIS SEEMS TO EXPLAIN MOST OF DIFFERENCE BETWEEN TWO FIGURES.) DATA IN TABLE 2 SHOW EFFECTS OF PROPOSAL BY CONFINDUSTRIA BOTH TO CHANGE FREQUENCY OF SCALA MOBILE ADJUSTMENTS FROM QUARTERLY TO SEMIANNUAL AND ALSO TO CALCULATE INCREASE IN INDEX POINTS ON SEMIANNUAL INDICES RATHER THAN ON QUARTERLY INDICES. SAVINGS FROM FIRST PART OF PROPOSAL WOULD BE ABOUT 981 BILLION LIRE (COMPARED TO 875 BILLION LIRE SHOWN IN TABLE 1). SHIFT TO CALCULATION BASED ON SEMI-ANNUAL INDEX WOULD RESULT IN FURTHER SAVINGS RAISING TOTAL TO 1,330 BILLION LIRE. (EFFECT OF USING SEMIANNUAL INDICES IS TO REDUCE NUMBER OF POINTS OF INCREASE IN INDEX FROM 27 TO 25 DURING 1977.)

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7. TABLE 2 - CONFINDUSTRIA PROPOSAL ON FREQUENCY OF SCALA MOBILE WAGE ADJUSTMENTS (BILLIONS OF LIRE)

CHANGE TO SEMIANNUAL ADJUSTMENT			
	PRESENT	QUARTERLY	SEMIANNUAL
	SYSTEM	INDEX	INDEX
COST	3,989.4(1)	3,008.4(2)	2,659.6(3)
SAVINGS	-	981.0	1,329.8

(1) ASSUMES 27 POINT INCREASE: FEBRUARY, 8; MAY, 6; AUGUST, 7; NOVEMBER, 6.

(2) ASSUMES 27 POINT INCREASE: MAY, 14; NOVEMBER, 13.

(3) RESULTS IN 25 POINT INCREASE: MAY, 12; NOVEMBER, 13.

8. COMMENT. FINAL OUTCOME OF NEGOTIATIONS AMONG GOVERNMENT, BUSINESS AND LABOR ON LABOR COST QUESTIONS WILL NOT LIKELY BE DETERMINED BEFORE END-JANUARY FOLLOWING SERIES OF MEETINGS AMONG THESE PARTIES. ABOVE DATA IS MERELY MEANT TO GIVE UP-TO-DATE INDICATION OF POTENTIAL LABOR COST SAVINGS WHICH MIGHT COME FROM MOST LIKELY COMPONENTS OF ANY FINAL PACKAGE. AT PRESENT SEVERANCE PAY PROPOSAL HAS BEEN PRESENTED BY UNIONS AS ALTERNATIVE TO REDUCED FREQUENCY IN SCALA MOBILE ADJUSTMENTS. HOWEVER, LATTER APPROACH STILL HAS CONSIDERABLE SUPPORT NOT ONLY WITHIN GOI AND OTHER POLITICAL PARTIES BUT ALSO AMONG ELEMENTS OF ALL THREE LABOR CONFEDERATIONS. IT SHOULD BE BORNE IN MIND THAT DATA SHOWN IN BOTH TABLES 1 AND 2 REFER ONLY TO INDUSTRIAL SECTOR. IF AGREEMENT IS REACHED ON MODIFICATION OF SOME OF THESE LABOR COSTS, IT IS QUITE LIKELY THAT SUCH AGREEMENT WOULD BE EXTENDED TO APPLY IN SOME WAY TO OTHER ECONOMIC SECTORS. (IN 1975 DEPENDENT LABOR COSTS IN INDUSTRY REPRESENTED 46 PERCENT OF TOTAL DEPENDENT LABOR COSTS.) FINALLY, ABOVE FIGURES DO NOT INCLUDE TRANSFER TO TREASURY OF FROM 600 BILLION

LIRE (BOI ESTIMATE) TO 800 BILLION LIRE (TREASURY MINISTRY
ESTIMATE) FROM PARTIAL BLOCK OF SCALA MOBILE PAYMENTS UNDER
GOI DECREE RECENTLY RATIFIED BY PARLIAMENT. WHILE BUSINESS
SECTOR CLAIMS THAT IT WILL GET NO DEIRECT BENEFIT FROM THIS
PARTIAL BLOCK, FUNDS TILL EVENTUALLY BE USED BY TREASURY TO
PROVIDE SOME FORM OF INCENTIVE TO HRODUCTIVE INVESTMENT.
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CONSEQUENTLY, BUSINESS IS LIKELY TO RECEIVE SOME INDIRECT
BENEFIT FROM THIS MEASURE.BEAUDRY

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